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Honduras

Sugar Annual

How Sweet it is! 2013 Sugar Report for Honduras

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Report Highlights:

The sugar industry in Honduras aims to increase investment, refining capacity, and efficiency. Sugar production is forecast to reach 537,000 Metric Tons (MT) in 2013/2014, with exports forecast at 190,000 MT. Honduras approved the Law and Regulations for the Production and Consumption of Biofuels with a wide range of fiscal incentives. As a result, the Government of Honduras and private investors are discussing the installation of an ethanol production plant.

Executive Summary:

The sugar industry in Honduras generates jobs for about 10 percent of the economically active population in Honduras. It is estimated that more than 200,000 people receive direct or indirect benefits from the sugar sector. About US\$50 million is paid in salaries annually and US\$40 million is paid by the sugar mills to independent sugar producers.

Sugar production, commerce and distribution in Honduras are in the hands of the private sector. Sugarcane production is carried out on 50,000 hectares of land. The sugar mills own about 64 percent and independent producers own about 36 percent of the land. The sugar industry provides the independent producers technical assistance to improve practices to obtain higher yields. However, some independent producers prefer to rent their land to the sugar mills.

The sugar industry is represented by the Honduran Sugar Producers Association (APAH). All seven sugar mills are members of APAH. These mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH.

Sugarcane production for the 2013/2014 harvest is estimated to increase to 5.0 million metric tons (MT) and for 2012/2013 it is forecast at 4.7 million MT. Sugarcane production for 2011/2012 had a slight increase from the previous estimate according to revised data provided by APAH.

Sugar production is forecast at 537,000 MT for 2013/2014 and for 2012/2013 it is estimated at 511,000 MT. Production in 2011/2012 was 471,000 MT higher than APAH's previous estimate of 462,000 MT. These increases were and are projected to take place through an improvement in agricultural yields and the industry's efficiency capacity.

The export forecast for sugar exports for 2013/2014 is 190,000 MT and for 2012/2013 it is estimated at 174,000 MT. APAH foresees an enhancement of sugarcane yields, milling technology and there will be new investments to increase exports. This is due to the entry into effect of new Free Trade Agreements (FTA's) which will open markets in 2013 and 2014. According to preliminary data from the Central Bank of Honduras, the U.S. dollar value of sugar exports was 56 million in 2012.

Domestic sugar consumption is forecast at 347,000 MT in 2013/2014 due to population growth, industrial use, and controlled domestic refined sugar prices.

The main factors that affect sugar production are the climate, land tenure insecurity and access to credit. In particular, in 2012 about 3,000 hectares of planted sugarcane owned by two sugar mills and independent producers had land invasions. The invaders based their actions in the low agricultural ceilings imposed in the Agricultural Modernization Law of 1992 that limits land expansion for any crop, including sugarcane. Independent producers are also affected with the financial crisis that has reduced available credit.

In December 2007, Honduras approved the Law for the Production and Consumption of Biofuels. The law provides fiscal incentives, such as exemptions from customs tariffs, income tax, and other related

taxes for 12 years. The approval of this law is important for ethanol production investment, since it will standardize the ethanol and gasoline mixtures. APAH conducted feasibility studies on ethanol production. Conversations between the Government of Honduras (GOH) and private investors are taking place for the installation of an ethanol production plant in Honduras.

In addition, the mills produce the energy that they use during the harvest months (November – May). The excess energy that they generate is sold to the GOH's National Enterprise of Electric Energy (ENEE). Sugar mills supply about 20 percent of the renewable energy produced in Honduras.

Commodities:

Sugar

Production:

Sugarcane is grown on 50,000 hectares (ha) of land. The sugar industry owns about 64 percent and independent producers own about 36 percent of the land. The sugar industry is comprised of seven sugar mills and 11 warehouses. Among the independent producers, about 55 percent are small producers (with 1-18 ha). About 22 percent are medium producers (with 18-53 ha.) and 23 percent are large producers with more than 53 ha.

Sugarcane production for the 2013/2014 harvest is estimated at 5.0 million MT (MMT) and for 2012/2013 it is forecast at 4.7 MMT. The amount projected is based on improvement of agricultural yields and milling efficiency. Sugarcane production for 2011/2012 had a slight increase from Post's previous estimate according to revised data provided by APAH.

Area planted and harvested in 2013/2014 are increased over 2012/2013 as APAH forecasts that sugar mills will improve yields and equipment investment to meet export opportunities resulting from new trade agreements. The projection looks forward to the legal compliance of a land security environment.

Area planted and harvested in 2011/2012 show actual data from APAH where the planted and harvested areas were lower than the projections due to land invasions.

Sugar production is estimated to reach 537,000 MT in 2013/2014, while production is forecast at 511,000 MT in 2012/2013. APAH states the increases are due to investments in some sugar mills and focus within the sugar industry to improve agricultural yields and production efficiency. Production in 2011/2012 increased to 471,000 MT according to actual data provided by APAH.

Sugar mills are working at 95-100 percent of their productive capacity. The mills are investing in response to the demand for sugar in the market. The recovery rate of sucrose from sugarcane is between nine and 10 percent. From the area harvested, 97 percent of the sugarcane enters into production and three percent is kept for replanting. In recent years, the sugar industry in Honduras has been investing in infrastructure and equipment, thus increasing refining capacity and improving efficiency.

The main factors that affect sugar production are rains and floods, land tenure, insecurity, and access to credit. In particular, in 2012 about 3,000 ha. of planted sugarcane owned by two sugar mills and independent producers in the North Coast of Honduras were affected by land invasions. The land invasions are illegal. However, invaders based their actions in the limits on the size of plantation agriculture established in the Agricultural Modernization Law of 1992. This Law established a maximum amount of land that can be dedicated to plantation style agriculture, i.e. large extensions of land owned by a single company. There is a procedure to request an increase to the limit; however, the APAH and others support a revision of the law.

Independent producers were affected by the financial crisis and bank requirements that reduced available credit. Producers are faced with a “high-risk” classification that banks give to loans to the agricultural sector because of a lack of collateral and bad credit history within the sector.

The sugar industry is interested in advancing in sugarcane and sugar production yields through improved agricultural systems and milling technology. Improved sugarcane yields are achieved through the constant evaluation of seeds and technical assistance from research centers in Colombia, Guatemala, and Honduras. The technicians at the sugar mills are also members of the Association of Central American Sugar Technicians. Through this association, members share information and new technological advances.

The sugar industry has a Foundation and programs to provide incentives to sugarcane workers and assist their communities. The industry provides them harvest equipment, health care, school meals, teacher salaries, road maintenance, literacy program for young people and adults, and credit for small enterprises in the communities where the sugar mills are located.

Consumption:

Domestic sugar consumption in Honduras is forecast at 347,000 MT in 2013/2014. The increase is due to population growth, industrial use, and controlled domestic refined sugar prices. Post is decreasing its initial domestic sugar consumption estimate for 2012/2013 of 349,000 MT to 337,000 MT due to a new estimate from APAH. The new estimate is still higher by three percent than 2011/2012 domestic sugar consumption of 327,000 MT. Per capita sugar consumption is 85 pounds per person of which 51.2 percent is for beverages, candy factories, and baked goods. The remaining 48.8 percent is for direct use. There is an increase in sugar use by rural bakeries.

Trade:

The export forecast for sugar exports for 2013/2014 is 190,000 MT, while sugar exports are estimated at 174,000 MT for 2012/2013, and 2011/2012 exports were 144,000 MT. This shows an increase of three percent in 2012 from the previous estimate due to the sugar industry’s investment to improve refining capacity. APAH indicates that the goal is to first supply the domestic market and then fulfill the CAFTA-DR and World Trade Organization (WTO) quotas. After these markets have been supplied, the sugar mills will proceed to export to the rest of the world. APAH foresees that sugar mills will expand and there will be new investments to increase exports. This is due to the new Free Trade Agreements (FTA) which will open markets for Honduras. The FTA with Mexico has been ratified, but sugar Tariff Rate Quotas (TRQ) were not negotiated. The FTA will provide preferential access to eight percent of

Mexico's no-supply quota. The FTA with the European Union (EU) will provide a sugar TRQ of 19,464 MT annually with an increase of 262 MT each year. Exports to the EU might begin in the middle of 2013. The FTA with Canada will bring a 2,500 MT sugar TRQ when ratified in 2014.

The sugar industry of Honduras complies with shipping its full tariff rate allocation of raw cane sugar with the United States and with the WTO quotas.

It should be noted that countries of the Central American region cannot export or import raw sugar to their region. This is an agreement within the Central American Customs Union (CACU). All the raw sugar surplus of CACU members is exported out of the Central American region.

According to preliminary data from the Central Bank of Honduras, the U.S. dollar value of sugar exports was 56 million with a volume of 90,600 MT in 2012. This amount shows an increase of four percent from the U.S. dollar value and three percent from the volume exported in 2011. The main destinations for Honduras's sugar exports were the United States, Jamaica, Dominican Republic, Peru, Trinidad and Tobago, Haiti, Taiwan and Puerto Rico.

In addition, preliminary data from the Central Bank reports that sugar imports were US\$300,000 with a volume of 200 MT in 2012. The volume imported in 2012 is one percent less than in 2011. The import tariff for raw sugar is 40 percent (consumption tax is not charged). The import tariff for refined sugar is 15 percent plus a 12 percent consumption tax. By law, quality restrictions require vitamin A to be added to sugar for human consumption, which is done by the Honduran sugar industry. The import tariff for raw sugar averages US\$0.35 per kilogram. The import tariff for refined sugar is US\$0.27 per kilogram, according to APAH's estimate based on average U.S. sugar contract #16 prices.

Sugar exports and imports of Honduras by country are the following:

EXPORT TRADE MATRIX

Honduras

Sugar, Centrifugal - Calendar Year 2012

Country	Metric Tons
United States	41,900
Jamaica	15,600
Dominican Republic	5,700
Peru	5,400
Trinidad and Tobago	5,200
Haiti	4,800
Taiwan	4,400
Puerto Rico	3,800
Netherlands Antilles	800
Yemen	700
Grenada	600

Antigua and Barbuda	600
Dominica	500
Others	600
T O T A L	90,600

Source: Preliminary data. Central Bank of Honduras.

IMPORT TRADE MATRIX
(Raw value)
Honduras

Sugar, Centrifugal - Calendar Year 2012

Country	Metric Tons
United States	100
Others	100
T O T A L	200

Source: Preliminary data. Central Bank of Honduras.

Please note that data reported as exports and imports in the Production, Supply and Distribution (PSD) tables and the data of the Export and Import Matrix differ. The difference is because of the manner of calculation of sugar export statistics by APAH and the Central Bank of Honduras: APAH export statistics include sugar which has been contracted for export, while the statistics of the Central Bank of Honduras only include sugar which has already been physically exported from Honduras.

Stocks:

Stocks are owned by the sugar mills and are located at the CISA warehouses in Tegucigalpa and San Pedro Sula, located at the north and central part of the country. Stock levels are expected to remain similar in 2013/2014.

Policy:

The GOH does not have an overall policy related to sugar. The Secretariat of Agriculture and Livestock (SAG), the Secretariat of Industry and Trade (SIC), sugar mills, and independent producers created the National Sugar Council through Decree 161-2005 in December 2005. The objective of the Council is to regulate matters between independent producers and sugar mills related to land tenure and technical assistance. There are good relations among the members of the Council. However, the Council does not meet regularly.

Because sugar is considered a basic commodity, which affects the cost of living, SIC must authorize any change in the consumer price for the domestic market. After many years of having the consumer price unchanged, there was an increase in 2010. The 2013 average prices are indicated in the table shown in the next section on Price Policy. Honduras does not have export taxes: they were eliminated in order to follow WTO recommendations.

For several years, APAH worked and lobbied the Honduran Congress for the approval of the Law for the Production and Consumption of Biofuels. The law was approved and published in December 2007. The law provides fiscal incentives, such as exemptions from customs tariffs, income tax, and other related taxes for 12 years. The regulations for the implementation of the law have been written and they will make clear the percentage mix of ethanol with gasoline. The approval of this law is important for ethanol production investment. The sugar industry foresees that investment in ethanol might be in 2014-2015. Conversations between the Government of Honduras (GOH) and private investors are taking place for the installation of an ethanol production plant in Honduras.

A sugar mill completed a study of the infrastructure and funding requirements to build an ethanol processing plant. According to data from 2008, the cost would be about US\$40 million if the plant were installed in an existing sugar mill. If a new sugar mill with an ethanol processing plant were built, the cost would be between US\$170-200 million.

According to APAH, in order to have land security for sugar production, dualities in the Agrarian Reform of 1970 and the Agricultural Modernization Law of 1992 need to be analyzed. Land tenure lawyers indicate there are dualities in both laws. This will guarantee further incentives to investment in agricultural and milling improvement.

The sugar mills produce the energy they use during the harvest months (November-April) through the use of bagasse, generating 128 Mwh with a potential of 344 Mwh of electricity. They also sell electricity to the GOH's electric company, supplying about 20 percent of the renewable energy produced in Honduras. Due to the high prices of oil, sugar mills started to use coal during the non-harvest season of May-October to fuel the mills.

Price Policy:

The table below shows the average sugar prices for plantation white (standard) and refined sugar sold at the wholesale market and to the consumer.

Honduras Average Sugar Prices

2012

US\$/pound

Sale place	Plantation white	Refined
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Wholesale	0.32	0.34
Consumer	0.38	0.42

Source: Honduran Sugar Producers Association (APAH)

At present, the exchange rate between the Honduran currency, the Lempira and the U.S. dollar is fixed at US\$1 = L.20.14.

Further information can be found at the Honduran Producers Sugar Association (APAH) website:

www.azucar.hn

Marketing:

The seven sugar mills sell their production to the Sugar Miller's Central (CISA), which is owned by APAH and has 11 warehouses in the country. CISA distributes the sugar nationwide. CISA has developed marketing programs for new brands and improved packaging. CISA has also increased its distribution areas in the northern region of the country. It was using one quintal bags (equivalent to 45.36 kilograms, or 100 pounds). CISA has changed, however, to 50 kilograms bags to bring Honduras in line with neighboring countries. It also has small packages to offer to restaurants and hotels, as well as at the retail level.

Production, Supply and Demand Data Statistics: (1000 MT)

Sugar, Centrifugal Honduras	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Sep 2011		Market Year Begin: Sep 2012		Market Year Begin: Sep 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	238	238	237	238		238
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	462	471	499	511		537
Total Sugar Production	462	471	499	511		537
Raw Imports	0	0	0	0		0
Refined Imp.(Raw Val)	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	700	709	736	749		775
Raw Exports	139	144	150	174		190
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	139	144	150	174		190
Human Dom. Consumption	324	327	349	337		347
Other Disappearance	0	0	0	0		0
Total Use	324	327	349	337		347
Ending Stocks	237	238	237	238		238

Total Distribution	700	709	736	749		775
TS=TD		0		0		0

Sugar Cane for Centrifugal Honduras	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Sep 2011		Market Year Begin: Sep 2012		Market Year Begin: Sep 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (ha)	52	50	55	51		54
Area Harvested (ha)	49	48	53	48		51
Production	4,384	4,393	4,732	4,757		4,995
Total Supply	4,384	4,393	4,732	4,757		4,995
Utilization for Sugar	4,384	4,393	4,732	4,757		4,995
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	4,384	4,393	4,732	4,757		4,995
TS=TD		0		0		0